

PROJECTION NOTES

- 1) ASSUMPTIONS CRITICAL – good idea to hand client **sample** notes and assumptions
- 2) TABS CAN BE LINKED WITH FORMULAS – CURRENTLY NOT – every situation is different so there will usually be changes made to formulas
- 3) CHANGE 1 NUMBER, PROJECTION WILL BE AFFECTED ALL THE WAY THROUGH - MUST FOLLOW-UP IN EVERY CASE – if you don't you and your client could be surprised by the banker
- 4) THE DEAL IS “RE-STATED” 3 TIMES :
 - A) SOURCES AND USES OF FUNDS – see handout
 - B) CASH FLOW – in the pre-start up column
 - C) BALANCE SHEET – opening balance sheet
- 5) PUT GUARANTEE FEES ON THE SOURCES AND USES OF FUNDING
- 6) AR/AP CAN BE ACCOUNTED FOR WITH LAGS IN SALES AND COGS VIA FORMULAS – then forwarded to your balance sheet projection
- 7) INVENTORY “PURCHASES” THAT ARE NOT COGS BUT ARE RATHER INCREASES IN EXISTING INVENTORY – covered on lower section of the cash flow and then accounted for on the balance sheet
- 8) NON-CALCULATING DUMMY LINES CAN BE USED FOR SALES, PRODUCTION, OR ANY OTHER TRACKING/CALCULATING PURPOSE
- 9) USE FORMULAS WHERE POSSIBLE – classics are COGS and payroll
- 10) LOC'S CAN BE USED – injection, interest calculation, interest payment, principal payment cycle
- 11) BREAK OUT EACH LOAN BY INTEREST AND PRINCIPAL AND LABEL – use the amortization table and include in the business plan appendices; can use same table to figure CPLTD and LTD – sample?
- 12) ANALYZE EACH LINE – income and cash flow should match
- 13) LABELS FOR CASHFLOW AND INCOME SHOULD BE THE SAME THROUGH THE CASH FLOW SUBTOTAL WITH THE EXCEPTION OF DEPRECIATION ON THE INCOME STATEMENT – here's the check: 2 ways
Income Statement total expenses plus cost of goods sold minus depreciation equals Cash flow “subtotal”. OR **Income Statement Net Profit equals Cash flow total sales minus subtotal, minus Income Statement depreciation.**

- 14) SALES PROJECTION IS CRITICAL! Prove it!
- 15) ACCOUNT FOR ACCURATE TAXATION – almost always a significant number and can seriously impact a company's cash flow; formulas are good here both on I.S. and also from tab to tab to cash flow
- 16) INCOME STATEMENT IS COMMON-SIZED – can compare to RMA
- 17) DEPRECIATION NEEDS TO BE ACCURATE- use MACRS, 179, and any other accelerated methods
- 18) CALCULATE CPLTD AND LTD – place on all projected balance sheets
- 19) EXPANSIONS AND BUYOUTS – NEED TO RE-PROJECT AND NORMALIZE – old numbers not necessarily related to the new situation
- 20) NORMALIZING PROJECTIONS – need to use line by line analysis
- 21) NEW PROFIT CENTERS OR DEPARTMENTS – use a separate line to contrast against existing proven revenue generators
- 22) ALL OF THIS CAN BE USED AS A DOUBLE CHECK AGAINST CANNED SOFTWARE – ESPECIALLY CASH FLOW – good check to see if the canned goods are capturing actual cash on balance sheets and statements of cash flow
- 23) CLIENTS SHOULD DO ALL OF THIS IF POSSIBLE; WITH SBDC GUIDANCE OF COURSE. They will learn much more about their new, expanded, or purchased business. They will see the relationships between the statements. They will understand the seasonal needs and demands of their business. They will be better prepared to plan their business and talk with lenders. They will understand the cost of financing.
- 24) COMMON RATIOS:
 - 1) CURRENT
 - 2) QUICK
 - 3) DEBT TO EQUITY